Gardening Books: Still Blooming

White Pine: Expanding from Poetry • A New Voice from Indonesia

Wall Street Looks at Professional Publishing

Publishers Weekly®

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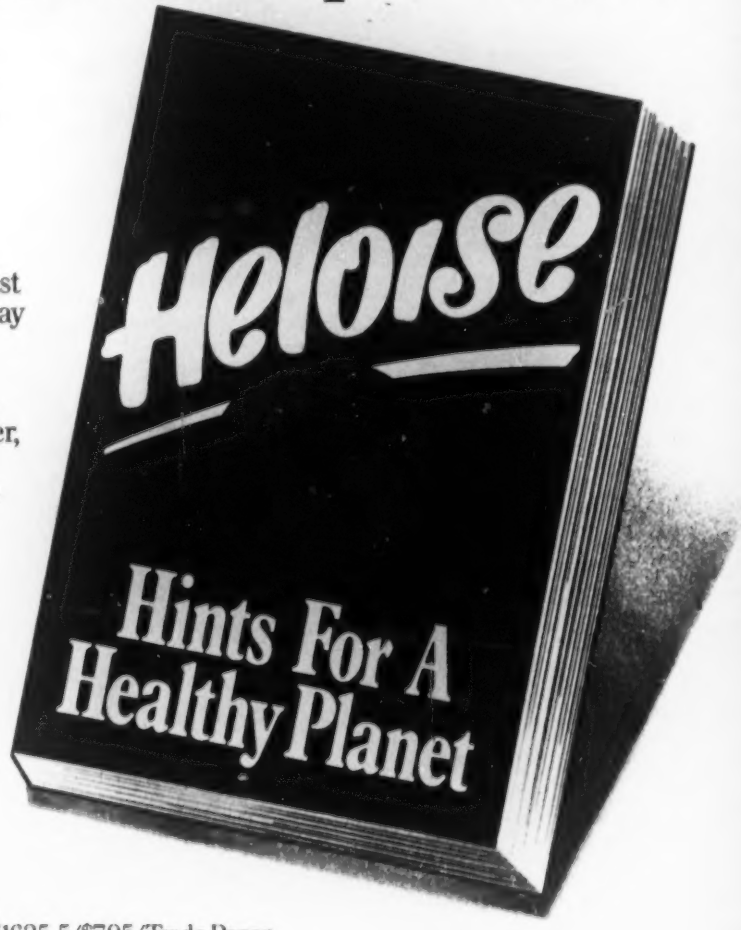

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EDITED BY GAYLE FELDMAN

The View from Wall Street

How one investment banker gauges the professional publishing scene

Given recent signs of gloom and doom visible in trade publishing—and the economy generally—and a year when AAP statistics showed professional publishing revenues down 0.5% through August (they rebounded in September and October, and increased only slightly in November), PW *thought it was time to examine the PSP scene from the financial perspective. We asked Richard Witmer, a partner in the corporate finance department of investment bankers Brown Brothers Harriman & Co., to walk us down Wall Street. He has provided us with a table showing the recent major deals ($50 million+).*

PW: How do you compare the professional with the trade publishing scene of late?

Witmer: Let me widen the scope of the question. Since many purchasers of professional publishing concerns also buy business information companies, it's interesting to look at the major PSP deals in conjunction with information company transactions [see Table below, particularly the last column]. From an investment perspective, there are more similarities between those two types of companies than between professional and trade publishing companies. Over the last 10 years, the radically different economic characteristics of trade and professional publishing companies have become more widely appreciated.

PW: What are those differences?

Witmer: First of all, professional publishing offers higher profit margins. Second, there's lower risk in terms of product development; although publishers may have to invest heavily to develop electronic databases, they don't have to pay huge author advances. They create materials for an identifiable audience, and can often test ideas in the marketplace before investing to develop the product.

A third positive factor is that professional publishing often has more favorable cash flow, due to income from subscription products; lower working capital requirements; and lower inventory levels relative to sales in general. Fourth, there is greater flexibility in pricing, since the information professional publishers convey is frequently perceived by users as absolutely vital to their work, and is generally paid for by their employers.

PW: How would you characterize the deals themselves?

Witmer: In terms of price-to-value measures, acquisition prices for professional publishers who hold leading positions in growing markets have reached levels unimaginable as recently as five years ago. On average, multiples of revenues used to hover around two; now they average four. A confluence of related factors, including the decline in corporate income tax and interest rates, and the increase in market price/earnings ratios, has fueled this price appreciation.

More importantly, perhaps, acquirers have become much more aggressive in terms of realizing economies, which they now plan in advance of the purchase and carry through much more quickly than they did in the past. Another important factor I touched on earlier is the more widespread appreciation of the favorable economics of professional publishing.

PW: Do you expect that acquisition price tags will remain expensive, or

Major Acquisitions ($50+ Million) of U.S. Professional Publishers And Business Information Services - January 1, 1987—Present

Month Announced	Acquirer	Acquiree	Purchase Price ($ millions)	Multiple of Revenues
1987				
March	News Corp. Ltd.	Harper & Row	$284.0	1.4
1988				
February	Dun & Bradstreet Corp.	I.M.S. International Inc.	1590.0	3.7
June	Saatchi & Saatchi	Gartner Group Inc.	90.3	2.3
July	Knight-Ridder	Dialog Information Services Inc.	353.0	3.6
July	Maxwell Communication	Macmillan Inc.	2640.0	2.8
October	Maxwell Communication	Official Airline Guides Inc.	750.0	4.2
December	Mead Corp.	Michie Co.	226.5	6.6
1989				
May	International Thomson	Lawyers Cooperative Publishing Co.	810.0	4.1
May	Reed International	Travel Information Group of News Corp.	825.0	5.7
July	Axel Springer Verlag AG	Medical Tribune Group	50.0[1]	NA
November	Reed International	Martindale-Hubbell Inc.	303.7	7.6
November	Southam Inc.	R.S. Means Inc.	52.0	3.7

[1]*Estimated.*

Courtesy Brown Brothers Harriman & Co.

might they start declining in the near future?

Witmer: Some acquirers are licking their wounds for having overpaid, but since so much consolidation has already taken place in the industry, there are no more than a dozen major PSP companies that are not in some sort of "permanent" ownership. By the latter I mean under the umbrella of organizations like Reed, Maxwell and Thomson. The dozen companies still being generally targeted are either closely held or owned by corporations that lack the critical mass in those particular fields to be successful over the long haul.

To illustrate, let's look at a deal that's already history. ITT owned Michie, but didn't have enough of a presence in legal publishing to make the most of it. The company was sold to Macmillan, which was able to make more out of it. But there came a time when Robert Maxwell presumably thought that he couldn't realize Michie's full potential, either. He sold it to Mead, an organization that has the kinds of databases that could maximize Michie's value. I would say, as a general observation, that companies are moving to the acquirers who can make the most out of them financially.

Simultaneously, the organizations that can offer "permanent" ownership and supply the critical mass are limited to a half dozen or so, all roughly committed to the same acquisitions strategy. With a strong and continuing demand and a shrinking number of companies on the supply side, acquirers develop a "once in a lifetime" outlook. They also clearly do not want a good company to fall into the hands of a competitor. Furthermore, foreign corporations, like Bertelsmann, Reed and Thomson, are constrained by antitrust legislation or a limited market at home, and so the U.S. has become their market of choice. All that combined has resulted in a feeding frenzy. Whereas companies used to be cultivated by purchasers who wanted to buy them in private deals, that now only happens with smaller firms; above $50 million, price is the operative factor.

I don't think there is great scope for prices to go up much beyond the present scale, but assuming interest

'I don't think there is great scope for prices to go up much beyond the present scale . . .'

rates remain at current levels and no significant deterioration in business fundamentals, I certainly don't see them coming down for the foreseeable future.

***PW**: What are the prospects for the few medium-sized independent companies that are left, such as Wiley, for example?*

Witmer: If you have a leading position in a niche market or markets, you can still do quite well if a company is well-managed. Nevertheless, you will never be able to generate for shareholders a figure comparable to the money they would receive if the company were sold, or if the house formed a strategic alliance with another. In the elhi sector, that's exactly what McGraw-Hill and Macmillan have done. Smaller companies, if they are well-managed and well-targeted, will continue to command good profit levels. With the smallest, niche companies, considerable consolidation is taking place, as these firms are being bought and folded into larger concerns. But there's still a lot of potential for niche start-ups.

***PW**: Finally, how do you differentiate the outlook for the various sectors of PSP publishing?*

Witmer: The highest subscription renewal rates are in science; with the decline in library budgets, more money is being shifted to periodicals. Legal publishing is also booming, with the growing number of large law firms that have correspondingly large amounts of money to spend on publications. The legal sector seems to have more growth potential than medical publishing, although well-run medical publishers can still turn in good profits. □

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